CITY AUDITOR'S OFFICE

Custodial Services Contract Administration

FEBRUARY 5, 2010

AUDIT REPORT NO. 1006

CITY COUNCIL

Mayor W.J. "Jim" Lane Vice Mayor Lisa Borowsky Wayne Ecton Suzanne Klapp Robert Littlefield Ron McCullagh Tony Nelssen



February 5, 2010

Honorable Mayor and Members of the City Council:

Enclosed is the report of Custodial Services Contract Administration, Audit No. 1006, which focused on a compliance review and evaluation of custodial contracts. The objective was to determine whether the City receives the services and products it pays for, and to identify potential improvements in contract administration.

Overall, while some contracted custodial services rated favorably, more effective contract monitoring could help ensure that custodial service specifications are being met. Communicating custodial service contract specifications to building occupants, establishing a contract specifications checklist and a network of on-site building liaisons, and gathering periodic contractor performance assessments will assist the Contract Administrator in managing these contracts. In addition, contract change orders were not handled correctly, but the changes appeared appropriate within the context of the originally contracted services.

We would like to thank staff in the Facilities Management and Parks & Recreation Departments for their cooperation and assistance throughout this audit.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely.

MUVIAN MAUKUS Sharron Walker, CPA, CFE

City Auditor

Audit Team:

Lisa Gurtler, Assistant City Auditor Joanna Munar, Senior Auditor

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EXECUTIVE SUMMARY

The audit of Custodial Services Contract Administration was included on the Councilapproved fiscal year 2009/10 Audit Plan. The audit consisted of a compliance review and evaluation of custodial contracts for the period of fiscal years 2008/09 and 2009/10. The objective was to determine whether the City receives the services and products it pays for, and to identify potential improvements in contract administration.

We reviewed the City's 14 custodial service contracts and related contract change orders, which were collectively budgeted for approximately \$1.8 million in fiscal year 2009/10. Three Contract Administrators manage these contracts, servicing an estimated 1.35 million square feet of City facilities and park restrooms. A Facilities Management department staff manages most custodial service contracts, while the Scottsdale Stadium and Airport each have a separate contract administrator.

Based on auditor-conducted surveys of City staff at the various locations, some custodial services rated favorably, while performance of other contract specifications needs improvement. Auditors' on-site observations noted similar conclusions regarding the quality of services. Due to the geographical size and scope of responsibility, the Facilities Management Contract Administrator cannot personally monitor all contracted facilities on a regular basis to assess contractor performance. Therefore, other techniques, such as communicating contract specifications and using a comprehensive contract specification checklist along with establishing on-site building advisors, are needed to facilitate contract monitoring.

While the change orders for the custodial service contracts appeared routine in nature and within the scope of originally-contracted services, the contracts did not contain the applicable terms to allow change orders. Additionally, procedural guidance in Administrative Regulation 216 - Contract Change Orders and Modifications is not consistent with the City Procurement Code. As a result, signature authority approvals, change order forms, and procurement processes for these change orders were not consistent with Code.

BACKGROUND

The City of Scottsdale enters into contracts with various vendors to provide custodial services and window cleaning for City offices, libraries, community and recreation centers, airport, stadium, and park restrooms. Currently, the City has 14 custodial contracts serving 130 buildings and the restrooms in 47 City parks, consisting of an estimated 1.35 million square feet.

Custodial Contracts

Categorized as "general services", the City's custodial service contracts are written for 1-year terms with the option of renewing for four additional 1-year terms. Contract start dates are staggered, with the first contract initiated in December 2004 and expiring in December 2009. Two more contracts will expire by May 2010.

There have been 24 contract change orders processed against the current contracts. A contract change order can increase or decrease the contract's total compensation when the original contract allows change orders and the requested change is within the original scope of work. These change orders have generally been approved to add services to new City facilities such as the Arabian and Appaloosa libraries, McDowell Mountain Ranch Aquatics Center, and a Police forensic laboratory.

Custodial Costs

The budgeted cost for custodial services in fiscal year 2009/10 is approximately \$1.8 million. As shown in Table 1, this amount represents an increase of approximately \$300,000 over the previous year's expenditures, which is largely due to adding services at the new facilities.

Table 1: Custodial Services Costs FY 2008/09 - FY 2009/10

Department	Contract Description	# of Contracts	Actual FY 08/09	Budget FY 09/10	% Budget FY 09/10
Facilities Mgmt	City Facilities	12	\$1,393,675	\$1,655,882	92%
Parks & Recreation	Stadium	1	78,992	103,777	6%
Airport	Aviation	1	20,302	19,000	1%
Parks & Recreation	Events	n/a	21,534	14,700	1%
	Total	14	\$1,514,503	\$1,793,359	100%

SOURCE: Auditor analysis of SmartStream financial reports, fiscal years 2008/09 through 2009/10.

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Contract Administration

A Contract Administrator in the Facilities Management department of the Public Works & Water Resources Division centrally manages 12 of the 14 contracts. These contracts account for \$1.7 million or 92% of the City's total annual custodial costs. In addition, the department manages the miscellaneous janitorial services, which cost approximately \$15,000, for the Parks & Recreation department's special or one-time events. Contract Administrators at the Scottsdale Stadium and Scottsdale Airport separately manage the two remaining contracts, which together total approximately \$123,000.

The City's Administrative Regulation 215 - *Contract Administration*, requires a Contract Administrator to manage, supervise, and monitor the terms, conditions, and specifications of the contract. Responsibilities include, but are not limited to, following the City's Procurement Code, preparing service specifications, and maintaining the signed contract, required bonds, insurance certificates, payment requests, and other contract-related documentation.

The custodial service contracts state the contractor's performance will be monitored and measured against contract specifications. The three Contract Administrators (Facilities Management, Stadium and Airport) have developed checklists and/or surveys to assist them in assessing the routine custodial services required by the contracts. These generally include:

- Removing trash,
- Cleaning restrooms and replenishing supplies,
- Vacuuming, sweeping or mopping,
- Dusting,
- Spot cleaning doors and windows,
- Wiping refrigerators and microwaves (inside and out) and vending machines, and
- Dusting window blinds every 2 weeks, and wiping artificial plants every 3 weeks.

In addition, the Contract Administrators meet with the vendors to actively assess and monitor custodial staff performance, and rely on City staff to identify a lapse in service or deficiencies in quality.

OBJECTIVES, SCOPE, AND METHODOLOGY

The City Auditor's Office performed this audit of the City's custodial services contracts to evaluate whether the City is receiving the services and products that it is paying for and whether there are opportunities to improve contract administration. The scope of this audit included custodial contracts in place for fiscal years 2008/09 and 2009/10.

In performing this audit, we reviewed 14 current custodial contracts and 24 accompanying change orders to determine compliance requirements related to signature authority, change order forms used, and procurement processing. We also reviewed related prior audits performed by this office and by other auditors, the City Procurement Code, and Administrative Regulations for signature authority, change orders, and contract administration. In addition, we interviewed staff of the Facilities Management department of the Public Works & Water Resources Division, the Scottsdale Airport, the Scottsdale Stadium, and the Purchasing department. Moreover, during our observations of City facilities, we spoke with various City employees regarding their assessments of custodial services.

We conducted 2 separate custodial services performance surveys. The first survey focused on City facilities and was distributed to 211 randomly selected City employees. Based on contract specifications, survey questions related to: 1) the observed frequency of custodial service for restrooms, offices, floors, and common areas, 2) quality of cleaning, 3) problem solving of custodial contractors with City staff, and 4) opportunities for reducing service frequency. The second survey went to the Parks & Recreation department staff and focused on custodial services for the restrooms of the City's 47 parks. Based on contract specifications, survey questions included: 1) removing trash, 2) cleaning and disinfecting receptacles and sinks, 3) replenishing products, 4) mopping floors, 5) wiping doors, stalls, and walls, and 6) removing cobwebs and litter.

Finally, we conducted a test of custodial services by observing various City facilities. During a walk-through of 9 City facilities, which included offices, a library, a senior center, and a community center, we used a contract specifications checklist to assess routine custodial work and the quality of work performed.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, Section 2-117, et seq. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives. Audit work took place from November 2009 through December 2009, with Joanna Munar and Lisa Gurtler conducting the work.

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FINDINGS AND ANALYSIS

1: Better monitoring of vendor performance and measuring quality of work is needed.

Monitoring vendor performance

Contracted services require the vendor's performance to be monitored and measured against contract specifications. For the custodial services Contract Administrators to adequately assess vendors' work, they must make regular site visits or have on-site employees communicate performance issues. The Stadium and Airport Contract Administrators are on-site employees and can efficiently monitor performance and communicate directly with custodial contractors. However, the Facilities Management (FM) Contract Administrator, responsible for the other custodial contracts, is not able to regularly observe and monitor the condition of all other City facilities. Establishing a network of building liaisons could provide an efficient method of collecting contractor performance information.

The FM Contract Administrator uses a custodial services checklist for park restrooms, but it does not include all relevant contract specifications. Also, a comprehensive checklist has not yet been established to monitor custodial services at other City facilities. As well, the Performance Assurance Log required by contract terms is not currently being used. Distributing a contract-based checklist and/or a Performance Assurance Log to on-site employees would both facilitate informing them of the contract-required custodial services and allow effective reporting on service quality and any performance issues.

Administrative Regulation 215 - Contract Administration (AR 215), states the Contract Administrator will keep a record in the contract file of all correspondence, conversations, and other data pertinent to the contract. However, according to the FM Contract Administrator, he estimates receiving 2 to 3 custodial performance complaints each week (primarily via email), but discards them once the issue is resolved. In general, we found limited records to demonstrate ongoing assessment of custodial services or the status of any work-orders. Maintaining historical information regarding vendor performance, such as number, location, and types of complaints, will enable the City to take appropriate action for any vendor performance-related issues.

Measuring quality of work

Custodial service specifications have not been communicated to on-site City employees so they can assess the adequacy of services performed. In addition, a procedure or mechanism is not in place to facilitate staff addressing issues with custodial services. As a result, many concerns with custodial performance are not addressed by building staff and not communicated to the Contract Administrator. This determination was based on surveys and auditors' on-site observations, as follows:

On-site Staff Surveys

We distributed a custodial services performance survey with contract-based questions to 211 randomly selected City employees in a cross section of City facilities. We received 85 completed surveys, or a response rate of 40%. Results for key questions from the survey are

shown in Table 2. In rating the overall quality of custodial service, 65% of respondents stated service was good to excellent, while 35% stated service needs improvement. Specific service areas receiving the lowest scores included restroom cleaning, floor mopping or vacuuming, and dusting common areas.

Table 2: Summary of Survey Results

Performance of Custodial Services in City Facilities

	F	0	Needs	No	Takal
	Excellent	Good	Improvement	Answer	Total
Restrooms	30	23	30	2	85
% of total responses received	36%	28%	36%	-	100%
Trash emptied	46	33	3	3	85
% of total responses received	56%	40%	4%	-	100%
Floors, vacuumed or mopped	13	29	40	3	85
% of total responses received	16%	35%	49%	-	100%
Dusting common areas	12	21	40	12	85
% of total responses received	16%	29%	55%	-	100%
Total	101	106	113	20	340
% of total responses received	32%	33%	35%	-	100%

SOURCE: Auditor analysis of survey results.

A second survey comprising of custodial specifications for park restrooms was distributed to a sample of Parks & Recreation Department staff who serve the City's 47 parks. The survey included 15 questions based on contract specifications with pass or fail ratings. We received 27 responses, or a response rate of 57%.

As shown in Table 3, areas earning favorable scores included: replenishing products; cleaning mirrors and sinks; and removing trash, litter, and debris. Areas that received unfavorable scores included: mopping floors; cleaning walls, doors, and partitions; and cleaning and disinfecting the restrooms and fountains.

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Table 3: Summary of Survey Results

Performance of Custodial Services in City Park Restrooms

Contract Specification	Score	% Favorable
Replenish products	26	96%
Clean sinks	22	81%
Remove trash	21	95%
Clean mirrors	19	86%
Remove all litter & debris	19	70%
Clean & disinfect toilets, urinals	16	59%
Clean & disinfect drinking fountains	15	60%
Damp wipe all trash receptacles	14	58%
Remove cobwebs	14	52%
Clean trash receptacles, inside and out	11	58%
Spot clean doors	11	42%
Damp mop floor	10	37%
Spot clean wall surfaces	7	27%
Spot clean stall partitions	7	26%
Clean diaper changing stations	6	60%

SOURCE: Auditor analysis of survey results.

On-site Auditor Observations

We selected 9 City facilities to observe the 32 routine cleaning services included in contract specifications. The selected locations were geographically spread throughout the City; included a variety of public and office, storage, or other nonpublic spaces; and are serviced by 4 of the 6 current vendors. Our observations included visually inspecting facilities using the checklist and leaving popcorn, handmarks, or other debris with a follow-up observation the next day.

Table 4 shows the results by facility, while Table 4a presents results by contract specification. Custodial services at the two lowest-scoring locations, One Civic Center and the North Corporation Yard, failed 13 and 8 areas of the contract specifications respectively. Four of the lowest-scoring facilities are served by 3 different vendors, demonstrating a need for better monitoring overall rather than an issue of a single problematic contractor.

Table 4: Summary of Observations

Performance of Custodial Services of City Facilities

Facili	Facility		Fail
1	Police District III Complex	32	0
2	Scottsdale Airport	31	1
3	Public Safety Headquarters	30	2
4	Water Campus Compound	30	2
5	Vista Del Camino	30	2
6	Granite Reef Senior Center	26	6
7	Mustang Library	26	6
8	North Corporation Yard	24	8
9	One Civic Center	19	13

SOURCE: Auditor on-site observations.

Based on our observations, custodial services can be improved at almost all locations tested.

As shown in Table 4a, which depicts observations by contract specification, the following areas consistently needed improvement:

- Wiping microwave ovens and refrigerators (inside and out), and vending machines,
- Dusting shelves and the tops of pictures,
- Wiping artificial plants every 3 weeks and dusting window blinds every 2 weeks, and
- Spot cleaning entrance doors and windows.

Table 4a: Summary of Observations

Performance of Custodial Services of City Facilities

Contract Specifications	Score	% Favorable
Exterior portion of entrance area/approaches	26	96%
Public areas, common areas, game rooms, recreation rooms, etc.	40	89%
Offices, work stations, cubicles, receptionist work area	32	89%
Book cases, office shelving	3	33%
Conference rooms, auditoriums, library rooms, multipurpose rooms	35	97%
Kitchen	28	78%

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Restrooms	44	98%
Wipe artificial plants every 3 weeks	3	38%
Dust blinds every 2 weeks	5	63%
Remove all bugs and cobwebs	9	100%
Stairs & stairwells	8	89%
Microwave ovens	6	67%
Pictures framed on walls in common areas and offices	7	78%

SOURCE: Auditor on-site observations.

Recommendation: The Public Works & Water Resources Division, Facilities Management (FM) Contract Administrator should enhance the existing contract specifications Checklist to be more comprehensive. In addition, the FM Contract Administrator should use the checklist or a similar tool to efficiently communicate contract specifications to on-site City staff and facilitate their reporting on service performance and any service issues. To supplement on-site staff reports, the FM Contract Administrator should periodically monitor all facilities' contracted custodial services and maintain all correspondence and data pertinent to the contract, as required by AR 215.

2: Contract terms did not provide for change orders and change order processing was not consistent with Procurement Code.

None of the 14 current custodial services contracts include terms that allow contract change orders, yet the Facilities Management department has processed 24 change orders against these contracts. Administrative Regulation 216 - Contract Change Orders and Modifications (AR 216) states that change orders may be executed only when provided for in the original contract. However, our review of the 24 custodial services change orders found them to be routine and within the originally contracted scope of work. In fact, the change orders generally added services to newly constructed or purchased City facilities. Of these, 13 of the 24 change orders will end as three related contracts expire in May 2010. As contracts continue to expire, the remaining change orders will be eliminated as the Contract Administrator writes new contract specifications based on the City's current needs.

In addition, change orders for these contracts were not processed consistent with City Procurement Code. This largely results from existing administrative guidance not being current. AR 216, which has not been updated since February 2007, is primarily directed at design and construction contracts, and provides limited guidance for general services, professional services or commodities contract change orders. While the City's Procurement Code and Purchasing department website set out rules that are more comprehensive and clear than AR 216, staff typically refer to Administrative Regulations for guidance. Following are areas where AR 216 needs additional clarification or correction.

Signature Authority and Approvals

In general, any change to a custodial services contract would require a City services change order form with authorizing signatures of the Contractor, Contract Administrator, and General Manager (currently titled Executive Director). In certain circumstances, additional authority is required. Of the 24 change orders we reviewed, the:

- Contractor did not sign 4,
- Contract Administrator did not sign 2, and
- Executive Director did not sign 10.

The Procurement Code and Purchasing website state City service change orders that alter the original contract cost by more than $25\%^1$ requires the concurrence of the department General Manager and Assistant City Manager. However, AR 216 states the 25% limit applies to design and construction change orders, and does not indicate there is a threshold for City service change orders. As a result, for the 10 change orders that exceeded the 25% threshold, only 5 were approved by the General Manager (Executive Director) and none were approved by an Assistant City Manager.

Change Order Form and Related Documents

We found inconsistency in staff's understanding and use of change order forms. Further, when processing change orders, staff relied upon verbal guidance that was at times contradictory.

- Of the 24 existing change orders, 2 were correctly processed on a City services change order form, while 21 were processed on a construction change order form, and 1 was processed via email.
- While AR 216 Sec. 5, states a checklist is required for all change orders, the Procurement Code states a justification must accompany all change orders and the Purchasing website requires the checklist for construction change orders only.
- The City services change order form, located on the Purchasing department's website, is not comprehensive enough to ensure compliance with applicable rules. The form does not require the cumulative amount of change orders compared to the original contract amount, nor does it include a signature line for the General Manager (Executive Director) and the Assistant City Manager when the change order exceeds the 25% limit.

Due to AR 216's lack of clarity, the change order processes required by the City's Procurement Code and Purchasing department guidelines were often not followed for the custodial services contracts. Staff who rely on AR 216 do not receive comprehensive guidance for processing change orders and, as a result, may process significant contract changes without the required management reviews and signature authorizations. Our previous audit report, *Change Orders and Contract Modifications for Capital Projects*, dated August 17, 2009, recommended that sections of AR 216 related to capital project change orders and contract modifications be reviewed and clarified. However, a more

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¹ whether a single change order or the aggregate of multiple change orders

comprehensive update is needed to address Procurement Code requirements for all types of contracts.

Recommendation: Management should ensure that change orders are only processed on contracts that allow such changes. In addition, management should revise AR 216 to reference the signature thresholds for general services contracts that are established in the City's Procurement Code. Further, management should revise the General Services Contract Change Order form to include the change order history, including the number of change orders, the cumulative change in cost, and the percentage change to the original contract amount, and a signature line for Executive Director and Assistant City Manager approval.

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ACTION PLAN

1. Better monitoring of vendor performance and measuring quality of work is needed.

MANAGEMENT RESPONSE: Management agrees with this finding. Because of the geographical size and scope of responsibility, the Facilities Management Contract Administrator cannot personally monitor all contract facilities on a regular basis to assess contractor performance.

PROPOSED RESOLUTION: The proposed resolution consists of four components; 1) Developing a network of on-site building liaisons, 2) Communicating custodial service contract specifications to building occupants through the building liaisons, 3) Establishing a contract specifications checklist, and 4) Gathering both periodic and random custodial contract performance assessments.

Central to the proposed resolution is developing a network of on-site building liaisons that will serve as a conduit to relay contractor performance issues to the Facilities Management Contract Administrator. A detailed, written description of contracted custodial services, including frequency and scope, will be provided to all building liaisons for their use in evaluating contractor performance and communicating these standard services to other employees. On-site liaisons will also receive an electronic checklist of these services to use in evaluating contractor performance on a routine basis.

The Facilities Management Contract Administrator will develop and manage the on-site building liaison program. In addition to collecting the periodic contractor performance checklists and compiling the results for trend analysis, the Contract Administrator will gather random performance assessments. These will serve as another real-time indicator of contractor performance and will be included in the trend analysis.

All correspondence and data pertinent to the contract, as required by AR 215 will be maintained by the Contract Administrator.

RESPONSIBLE PARTY: Public Works Division, Facilities Management Division

COMPLETED BY: August 31, 2010

2. Contract terms did not provide for change orders and change order processing was not consistent with Procurement Code.

MANAGEMENT RESPONSE: Management is in agreement with the findings of the audit. The existing AR 216 and the Procurement Code are not in agreement and that can provide for confusion for City staff when processing change orders.

PROPOSED RESOLUTION: It was found that the non-construction solicitation boilerplates did not contain specific language dealing with the City's right to issue change orders. As of December 2, 2009, all of the Purchasing Solicitation boilerplates now have specific

language in them regarding the City's right to issue change orders, thus all future contracts issued as a result of a formal solicitation will have this language included.

AR 216 is already under review and being revised to bring it into compliance with the Procurement Code as a result of a prior audit # 0908 Change Orders and Contract Modifications for Capital Projects. As a result, there should no longer be any conflicting or erroneous direction in AR 216 once it is published, which is expected in March 2010.

As per the Procurement Code, only those Change Orders that exceed 25% require the additional signature of the Department General Manager and Assistant City Manager. This Procurement Code Rule is also under review as part of an update to the Procurement Code Rules and Procedures that is currently in process. It is expected the review will result in the deletion of the Assistant City Manager requirement.

The Purchasing web site has been updated as of December 1, 2009 to clarify the use of a change order checklist only being applicable to construction change orders.

Purchasing will revise the current Change Order templates to provide a more comprehensive summary of the changes and various reviewers' signatures, as required.

RESPONSIBLE PARTY: Administrative Services Division, Purchasing Department

COMPLETED BY: June 2010

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City Auditor's Office

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